No. 18180
IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

FORMULABS, INCORPORATED, a corporation, CLARENCE SCHREUR and GORDON S. LACY, individuals doing business as PACIFIC RESEARCH LABORATORY, a co-partnership,

Appellants,

vs.

HARTLEY PEN COMPANY, a corporation, doing business as THE HARTLEY CO., and E. I. DU PONT DE NEMOURS & COMPANY, a corporation,

Appellees.

Answering Brief of Appellee E. I. du Pont de Nemours & Company.

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Statement Showing Jurisdiction.

Jurisdiction of the main action commenced by Hartley Pen Company (herein called "Hartley") against E. I. du Pont de Nemours & Company (herein called "du Pont") for alleged breach of warranty is founded upon diversity of citizenship and an amount in controversy which exceeds the sum of $10,000.00, exclusive of interest and costs. 28 U. S. C. §1332. Jurisdiction of the ancillary action commenced by

Formulabs, Incorporated, Clarence Schreur and Gordon S. Lacy, intervenors for the sole purpose of protecting their proprietary rights in certain secret ballpen ink formulae which were subject to the control or disposition of the district court and threatened at the time of intervention by the possibility that an order of that court requiring publication of those secrets without limitation might be made, is founded upon Rule 24-(a)(3) of the Federal Rules of Civil Procedure and the decision of this court in *Formulabs, Inc. v. Hartley Pen Co.,* 275 F. 2d 52, cert. denied 363 U. S. 830. Hartley and the intervenors are, for diversity purposes, citizens of the State of California; du Pont is a citizen of the State of Delaware.

Intervenors appeal from two interlocutory orders of the district court (one dismissing their complaint in intervention and the other refusing the injunction sought by them against Hartley)[1] and from a final decision of the district court entered pursuant to Rule 54(b) of the Federal Rules of Civil Procedure dismissing their complaint in intervention for lack of jurisdiction over the subject matter as to all claims sought to be asserted by intervenors against Hartley arising out of contractual rights and obligations *inter sese.*

Jurisdiction of this court to review the interlocutory orders and the order for final judgment is founded upon 28 U. S. C. §1292(1) and 28 U. S. C. §1291, respectively.

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[1]The two interlocutory orders are necessarily entwined, denial of injunctive relief being implicit in dismissal of the complaint in intervention upon which the motion for that relief was predicated. See *Talon, Inc. v. Union Slide Fasteners, Inc.,* 249 F. 2d 308 (9th Cir. 1957).

Statement of Proceedings Following Remand.*

By its July 11, 1962 decision in *Formulabs, Incorporated v. Hartley Pen Company,* 306 F. 2d 148, this court remanded Cause No. 17741 to the district court "with the suggestion and request that the District Court expeditiously rule upon Formulabs' motion for preliminary injunction and du Pont's and Hartley's motion to dismiss the complaint in intervention." This the district court did on July 26, denying intervenors' motion for a preliminary injunction [Clk. Tr. ** 54-59] and granting the motion of du Pont and Hartley to dismiss the complaint in intervention.

As evidenced by the interlocutory findings of fact and conclusions of law, the ruling of the district court refusing the injunction was based upon three independent grounds: first, that the district court lacked subject matter jurisdiction to litigate the contractual rights and obligations of Hartley and intervenors *inter sese* [Clk. Tr. 58, par. 4]; second, that on the showing of relevancy and necessity made by du Pont resulting in the district court's order of limited disclosure made January 10 and filed January 11, 1962, considerations of procedural due process (*viz.,* in du Pont's being enabled properly to prepare its defense) outweighed the possibility of any adverse effect upon the intervenors' proprietary rights [Clk. Tr. 58, par. 5]; and third, that, under the conditions of safeguard incorporated in

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*A complete statement of the proceedings prior to July 11, 1962, the date of the remand, is contained in du Pont's brief in opposition to Hartley's petition for prerogative writs in Cause No. 17799.

**"Clk. Tr." and "Supp. Clk. Tr." are used herein to designate, respectively, the Transcript of Record and the Supplemental Transcript of Record in Cause No. 18180.

the order of limited disclosure, no irreparable injury would be done intervenors as no general publication of the ballpen ink secrets was ordered to be made. [Clk. Tr. 58, par. 6.] By its order dismissing the complaint in intervention, the district court granted leave to intervenors to file an amended complaint in intervention joining Hartley

> "in opposing all efforts to compel disclosure of any secret formula or secret process or other trade secret in which intervenors may have or claim a property right or other legally cognizable interest, so that intervenors may, if so advised, participate in all future hearings and proceedings which may be had in this action concerned with any disclosure of any such secret formula or secret process or other trade secret." [Clk. Tr. 63.]

Intervenors thereupon moved the district court for an order for final judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure seeking a definitive determination facilitating appeal and review by this court of the single ground that the district court lacked subject matter jurisdiction to determine the contractual rights and obligations between Hartley and the intervenors. [Clk. Tr. 44-48.] That motion was granted and on July 31 an order for final judgment made dismissing the complaint in intervention for lack of jurisdiction over the subject matter as to all claims

> "asserted, or sought to be asserted, by intervenors as against [Hartley] in this action, arising out of any alleged contractual rights or obligations

> of [Hartley] and intervenors *inter sese,* or otherwise arising under State law, without leave to intervenors to file an amended complaint in intervention asserting any such claims, upon the ground that the requisite diversity of citizenship does not exist and no such claims arise or can arise under the Constitution or laws or treaties of the United States." [Clk. Tr. 70.]

Agreeably with Hartley's motion of August 3 [Supp. Clk. Tr. 1-8], the order for final judgment was amended on August 6 so that intervenors would have leave to file an amended complaint in intervention in line with the July 26 dismissal order as above quoted. [Supp. Clk. Tr. 72.] Thereafter and pursuant to stipulation of the parties, the order for final judgment was further modified on August 10 to enlarge the time within which intervenors may, "if so advised," serve and file an amended complaint in intervention until twenty days after the return to the district court of the mandate of this court in Cause No. 17741. [Clk. Tr. 75-76.]

Summary of Argument.

I.

The district court does not have subject matter jurisdiction over the separate and independent controversy framed by the complaint in intervention. Its dismissal by the district court was, therefore, a necessary and proper result.

II.

Assuming arguendo that jurisdiction of the district court extends to determination of the separate and independent controversy framed by the complaint in intervention, the district court did not abuse its discretion in refusing to enjoin disclosure by Hartley.

A. *The presentation of the truth is a paramount consideration to protection of a proprietary right.*

B. *Under the conditions of safeguard incorporated in the order of limited disclosure, no general publication of the secrets will be made and no irreparable injury done to intervenors.*

ARGUMENT.

I.

The District Court Does Not Have Subject Matter Jurisdiction Over the Separate and Independent Controversy Framed by the Complaint in Intervention. Its Dismissal by the District Court Was, Therefore, a Necessary and Proper Result.

By their complaint in intervention, intervenors sought to litigate in the federal forum their rights and the correlative duties of Hartley under a licensing agreement made between them and Hartley. Had that complaint in intervention initiated an original action in the district court, no subject matter jurisdiction would have obtained because the requisite diversity of citizenship between the adverse parties does not exist and no federal question is thereby presented.[2]

Absent any independent jurisdictional basis, whether the district court has jurisdiction to entertain the claim framed by the complaint in intervention necessarily depends upon the applicability of the doctrine of ancillary jurisdiction. That doctrine has evolved to mitigate the jurisdictional impediments to increasing the size of a federal lawsuit by construing "case" or "controversy"

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[2]Intervenors contend that an independent jurisdictional basis for the determination of their claim derives from Rule 24(a)(3) of the Federal Rules of Civil Procedure and the decision of this court in *Formulabs, Inc. v. Hartley Pen Co.*, 275 F. 2d 52, cert. denied 363 U. S. 830. That contention is based upon a fundamental misconception both of the scope and purport of the federal rules and of the holding of this court in the first *Formulabs* decision. Rule 82 expressly provides that: "These rules shall not be construed to extend or limit the jurisdiction of the United States district courts. . . ." Fed. R. Civ. P. 82. The sole issue presented in the first *Formulabs* decision—whether the district court erred in denying Formulabs' motion to intervene—was succinctly resolved by this court as follows: "We hold that under the plain language of Rule 24(a)(3) Formulabs had a right to intervene in the main action, and that the district court erred in denying its application." (275 F. 2d 52 at 57.)

in its constitutional context as extending judicial power to determine matters raised by an action properly before the district court of which it could not take cognizance if independently presented. See Barron & Holtzoff, Federal Practice and Procedure §23. Its historical evolution commenced with cases in which the federal court acquired control of a *res* to which an intervenor laid claim. *Freeman v. Howe,* 24 How. 450; *Krippendorf v. Hyde,* 110 U. S. 276. Because federal control, under such circumstances, is exclusive and state process cannot interfere, see *In re Tyler,* 149 U. S. 164, *Covell v. Heyman,* 111 U. S. 176; the intervening claimant to the *res* would be relegated to pursuit of the property after disposition by federal court order were he, because of his citizenship, denied access to the federal forum. To provide an immediate and adequate remedy to the claimant irrespective of his citizenship, the claim was considered capable of adjudication as ancillary to the main action. The concept has since been broadened to effectuate and protect federal judgments, see, *e.g., Supreme Tribe of Ben-Hur v. Cauble,* 255 U. S. 356; and, under the rubric of "pendent jurisdiction", to permit joinder of related multiple claims only one of which raises a federal question, see *Hurn v. Oursler,* 289 U. S. 238. Whatever may be the limits of the doctrine need not here concern us as intervenors rely exclusively on the concept embodied in the custody or control cases exemplified by *Krippendorf v. Hyde, supra,* in asserting that the district court has the power to adjudicate the contractual rights and obligations between them and Hartley under a licensing agreement to which du Pont is not a party and in which it has no interest. That assertion assumes an analogy between *Krippendorf* and the instant action which does not exist.

Krippendorf was a diversity action commenced by Hyde and others in the federal court for the purchase price of certain merchandise allegedly sold to defendants. A writ of attachment levied on goods in the possession of Krippendorf and of which he claimed sole ownership brought the *res* within the court's exclusive control. Krippendorf thereupon filed in the federal court a bill in equity between citizens of the same State seeking to perfect his title to the *res* and to restrain the marshal from disposing of it. From a decree dismissing his bill on demurrer sustained for lack of jurisdiction, Krippendorf appealed. The Supreme Court reversed, holding the bill to be ancillary and saying at 110 U. S. 281-82:

> "For if we affirm . . . the exclusive right of the [trial court] in such a case to maintain the custody of property seized and held under its process by its officers, and thus to take from owners, wrongfully deprived of possession, the ordinary means of redress by suits for restitution in State courts, where any one may sue, without regard to citizenship, it is but common justice to furnish them with an equal and adequate remedy in the court itself which maintains control of the property; and, as this may not be done by original suits, on account of the nature of the jurisdiction as limited by differences of citizenship, it can only be accomplished by the exercise of the inherent and equitable powers of the court in auxiliary and dependent proceedings incidental to the cause in which the property is held, so as to give to the claimant, from whose possession it has been taken, the opportunity to assert and enforce his right."

In the present case, by contrast, neither Hartley nor du Pont disputes intervenors' claimed proprietary rights or asserts any paramount interest (or in the case of du Pont, any interest at all) in the secret ballpen ink formulae. The district court has acquired control over the secrets, not through court process, but by virtue of a licensing agreement willingly made by intervenors prior to the occurrence of the events destined to be litigated between the principal adversaries, Hartley and du Pont. The owners of the secrets have not been in any way deprived of the use or possession of their property and are not threatened with such deprivation under the terms of the discovery order now before this court for review in Cause No. 17799. Furthermore, if any threat to their property should hereafter arise, that threat would stem from the *use* of their property which intervenors themselves sanctioned in electing to license Hartley for royalty. In so doing, intervenors assumed a risk reasonably foreseeable — that disclosure to a third person would be necessary in order to secure procedural due process to that third person in his defense of a claim for supposed injury made by their licensee. No parallel consideration inheres in *Krippendorf*. There an innocent third person found himself deprived of the use and possession of his property as a result of court process issued in aid of an action between two parties, *neither of whom bore any relation to him.* Unlike intervenors, Krippendorf had not voluntarily surrendered any part of his bundle of rights in the property attached. The ancillary or provisional remedy of attachment was misdirected against him, as he desired and as the court ultimately permitted him to show. Not so here.

Here there are no conflicting claims to ownership of the secrets and no question but that Hartley's claim against du Pont arises out of its use under license of those secrets. It is no fortuitous circumstance that finds intervenors before the court in an affort to supress the information required by du Pont in order properly to prepare its defense. It is a necessary corollary to their voluntary act of having disclosed the secrets to Hartley under limited conditions of safeguard, viz., the terms of the licensing agreement. Having elected to relinquish a measure of their control over the secrets in order better to secure their commercial exploitation, intervenors cannot now contend they stand in the role of Krippendorf—who was not only deprived of the use and possession of his property by court process issued in aid of an action in which he was neither involved nor remotely interested but who was, in addition, relegated to awaiting disposition of his propery by court order before even being permitted to assert his claim.

Here, of course, intervenors have been extended the opportunity to oppose *as owners,* together with Hartley, the efforts of du Pont to establish need for limited disclosure of the secrets in order properly to prepare its defense to the main action. That opportunity they have fully exercised *as owners.*[3] Their disappointment in the result cannot affect the scope of power of the district court. Similar considerations of fairness to the intervening claimant in *Krippendorf* not prevailing here, the district court lacked the constitutional power to adjudicate the separate and independent controversy

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[3]As intervenors are frank to admit, "They certainly opposed the defendant's effort to show good cause." [Clk. Tr. 30, lines 10-12.]

framed by the complaint in intervention. Dismissal of the intervenors' complaint was, therefore, a necessary and proper disposition.

II.

Assuming Arguendo That Jurisdiction of the District Court Extends to Determination of the Separate and Independent Controversy Framed by the Complaint in Intervention, the District Court Did Not Abuse Its Discretion in Refusing to Enjoin Disclosure by Hartley.

A. The Presentation of the Truth Is a Paramount Consideration to Protection of a Proprietary Right.

Another striking dissimilarity between *Krippendorf* and the present case stems from du Pont's need to know the secret formulae in order properly to prepare its defense to Hartley's claim. Here, then, we have conflict between the policy fostering ascertainment of the truth and that favoring protection of property interests. Where those two policies collide, the interests of justice demand that property rights be subordinated to the end that a proper determination may be made of the civil rights of litigants; if disclosure of the secrets is indispensable to that result, then disclosure must be made. *Coca-Cola Co. v. Joseph C. Wirthman Drug Co.,* 48 F. 2d 743; *Grasselli Chemical Co. v. National Aniline & Chem. Co.,* 282 Fed. 379; *Willson v. Superior Court,* 66 Cal. App. 275, 225 Pac. 881.

Nor do intervenors, by reason of their ownership of the secrets, stand in any position different from that of their licensee. Had they themselves incorporated du Pont's dye in ballpen ink of their own manufacture with the results allegedly obtained by Hartley and had they thereafter commenced an action against du Pont

for damages, they would necessarily have put at hazard the secrecy of the formulae by which their inks were prepared. Having sought and presumably obtained a commercial advantage by revealing the secrets to Hartley under license, intervenors have not insulated themselves from that hazard. So to hold would be to frustrate the public policy requiring disclosure where necessary in order to enable a defendant to prepare his defense. That the secrets sought to be protected are the property of persons not parties to the action is not a proper consideration affecting the requirement of disclosure. *Johnson Steel Street-Rail Co. v. North Branch Steel Co.*, 48 Fed. 191, 192-93.

Thus, assuming *arguendo* that the district court has the power to determine the separate and independent controversy framed by the complaint in intervention and further that injury to the intervenors' proprietary rights would accompany disclosure under the conditions of safeguard incorporated in the order of limited disclosure, refusal of the injunction sought by intervenors did not constitute error. Indeed, it was the only possible solution after the district court had once assessed the showing of relevancy and necessity made by du Pont in favor of, and the opposition made by both Hartley and intervenors against, disclosure of the secrets and had resolved that issue in favor of du Pont. Issuance of the injunction against disclosure would have imposed upon Hartley the obligation to dance to two discordant tunes simultaneously. Even so agile a litigant would find compliance with contrary judicial directives — one directing and the other enjoining disclosure — an impossible demand. The district court's disposition of intervenors' motion for injunctive relief was not only a proper but a necessary result.

B. Under the Conditions of Safeguard Incorporated in the Order of Limited Disclosure, No General Publication of the Secrets Will Be Made and No Irreparable Injury Done to Intervenors.

Further, under the conditions of safeguard incorporated in the order of limited disclosure made January 10 and filed January 11, 1962, no irreparable injury—a necessary condition precedent to the grant of injunctive relief—can conceivably be done intervenors. That order specifically provides:

1. The discovery papers revealing the secret formulae and processing techniques shall be filed with the clerk of the district court under seal to be opened only by order of the court;
2. Copies of such discovery papers shall be served personally upon du Pont's counsel and access thereto shall be restricted to two of their number and to designated experts not exceeding three in number;
3. Du Pont's agents to whom access to such discovery papers is extended are permanently enjoined from disclosing any facts reasonably calculated to lead to the revelation of the secrets except to the extent required during trial under such protective measures as may be adopted by the court to prevent public or undue disclosure.

How compliance on the part of Hartley with that order will destroy the value of intervenors' property is incomprehensible, their assertion that disclosure to du Pont's experts will constitute a total destruction of their proprietary rights by *general publication* to the contrary notwithstanding. That Hartley is better able to withhold disclosure of information revealed to it by inter-

venors in confidence than will be du Pont's agents subject to the coercive power of the district court is a wholly unwarranted if not utterly ridiculous conclusion on intervenors' part. Whatever proprietary rights may attend a trade secret cannot be prejudiced by revelation of that information to a person who has no interest in commercial exploitation of the secret and who is permanently enjoined from either using or revealing it. The touchstone of a trade secret's value is the advantage obtained over *competitiors* who do not know or use the secret. *Smith v. Dravo Corp.,* 203 F. 2d 369, 373 (7th Cir. 1953); *Sandlin v. Johnson,* 141 F. 2d 660, 661 (8th Cir. 1944). No issue can seriously be tendered that du Pont will misuse the information disclosed pursuant to the order, either by a publication in contempt of the provisions of that very order or by the competitive manufacture of ballpen ink.

It is true that the order of limited disclosure may portend general publication of the secrets assuming that future proceedings before the district court result in permission to use at trial to a jury the information revealed. Whatever future action may be taken by the district court in that regard cannot, however, be now predicted. That general publication of the secrets will follow their disclosure under the safeguards provided is apprehension on the part of the intervenors, not fact. Intervenors are assured, under the terms of the orders of which they here complain, participation and the opportunity to be heard in all such future proceedings concerned with disclosure in any manner other than that now ordered to be made. No further protection can reasonably be afforded them without serious prejudice to the litigants in the main action and frustration of the judicial process.

Conclusion.

It is, therefore, respectfully submitted that, for the reasons hereinabove recited and those mentioned in the motion and opposition papers filed by du Pont in Cause Nos. 17741 and 17799:

1. The appeal in Cause No. 17741 be dismissed as frivolous or moot;
2. The petition of Hartley for prerogative writs in Cause No. 17799 be denied;
3. The judgment of the district court dismissing the complaint in intervention and the interlocutory orders refusing the injunction sought by intervenors in this Cause No. 18180 be affirmed; and,
4. The order of this court made February 1, 1962 staying the district court's order of limited disclosure be dissolved.

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

ROBERT HENIGSON